

**WELCOME REMARKS BY
MR HOOKYU RHU
EXECUTIVE DIRECTOR, THE SEACEN CENTRE
AT THE OPENING CEREMONY OF THE
9TH SEACEN–CEMCOA/BOJ INTERMEDIATE COURSE ON
PAYMENT AND SETTLEMENT SYSTEMS FOR EMERGING ECONOMIES
*Port Moresby, Papua New Guinea, 16 – 21 February 2014***

Mrs. Elizabeth Genia
Assistant Governor
Bank of Papua New Guinea

Distinguished Resource Persons

Senior Officials of Bank of Papua New Guinea

Course Participants

Ladies and Gentlemen:

Good Morning,

On behalf of The SEACEN Centre, I would like to extend to all of you a cordial welcome to the **9th SEACEN–CeMCoA/BOJ Intermediate Course on Payment and Settlement Systems for Emerging Economies.**

Allow me to begin this ceremony, by thanking our gracious host, Bank of Papua New Guinea, for the excellent arrangements and warm hospitality in organising the Course. The SEACEN Centre is deeply grateful to Assistant Governor Elizabeth Genia for taking time from his busy schedule to officiate the Opening Ceremony. We also wish to thank the members of the Organising Committee under the guidance of Mr. Robert Kule, Manager, Banking Department, and Mrs. Naomi Kedeia, Manager, Human Resource Department. The Committee and secretariat have

been working in partnership with SEACEN months before the Course starts to ensure that the learning event is well planned and well delivered.

I would also like to express my gratitude to our collaborator, the Center for Monetary Cooperation in Asia (CeMCoA), International Department of Bank of Japan for the financial support towards conducting this Course.

Ladies and Gentlemen:

On this opening day of the 9th SEACEN-CemCoa/BOJ intermediate course on payment and settlement systems, I would like to share with you some of my thoughts on the payment and settlement systems and their relationship with the central banks, by revisiting the history of modern finance.

The origin of banks is known as the rise of the Italian Medici in the 14th century. At that time, there were multiple systems of coinage, some gold, some silver, and some base metal. Any long-distance trade or tax payment at that time needed conversion from one currency to another. Of particular importance in the Medici's early business were the bills of exchange which had developed in the Middle Ages as a way of financing long-distance trade. The creditor could draw a bill on the debtor and either use the bill as a means of payment in its own right or obtain cash for itself at a discount from a banker willing to act as a broker. But there were no cheques yet; instructions for payment to a third party were given orally and written in the bank's books. There was no interest; instead depositors were given claims to the bank's annual profits. Unlike earlier Italian banks, branch managers of the Medici bank were junior partners who were remunerated with a share of the profits. With this decentralization, the Medici bank was so profitable with branches in Rome, Geneva, Florence, Pisa, London and Avignon.

This Italian banking system became the European model in the coming centuries. In Amsterdam, London and Stockholm, the next wave of financial innovation occurred as the forerunners of modern central banks. The Amsterdam Exchange Bank (called Wissel Bank in Dutch name) was set up in 1609 to resolve the clearing problems at that time created by the 14 different mints and foreign coins in circulation there. By allowing merchants to set up accounts denominated in a standardized currency, the Exchange Bank pioneered the system of cheques and direct debits or transfers that we take for granted today. This allowed more and more commercial trade to take

place without the need for the amounts of money involved to materialize in actual coins. One limitation on this system was that the Exchange Bank maintained almost 100 percent ratio between its deposits and its reserves of precious metal and coin.

With the foundation of the Swedish Riksbank in 1656, this barrier was broken through. The Riksbank lent amounts in excess of its metallic reserve, exploiting the fact that the money left on deposit could profitably be lent out to creditable borrowers.

And then, with the creation of Bank of England in 1694, the Bank was endowed with distinctive privileges. From 1742 it established a partial monopoly on the issues of banknotes, a distinctive form of promissory note that did not need to bear interest, designed to facilitate payments without the need for both parties in transaction to have current accounts.

From this review of modern financial history, we can recognize that managing the nation's payment and settlement systems was the oldest core function of the forerunner central banks. It was in fact older than the functions of lending and banknote issuing.

From this perspective, I personally believe that modern central banks should continue to play a leading role in innovating their nation's payment and settlement systems and keeping the systems in sound, efficient and robust shape. In today's financial world which is widely interconnected, central banks' role in developing international standards for payment, clearing and settlement systems has become even greater with the adoption of legislations and other policies recommended in CPSS/IOSCO's 24 PFMI (Principles for Financial Market Infrastructures). These recommendations are aiming at fostering the safety, efficiency and resilience of jurisdictions' financial market infrastructures. I believe that SEACEN's effort to hold three courses on payment and settlement systems every year certainly provides a good opportunity to share experience and learn from each other in this important area of central banking policies.

Ladies and Gentlemen:

From a humble beginning, innovation predicated upon globalization and advancement in information technology has spurred development in payment and settlement systems to become the most imperative and significant financial infrastructure. However, the proliferation of payment and settlement systems and expanding boundary of participants are not without risks. As payment

and settlement systems are increasingly linked both within- and cross-border, systemic risk has become a critical issue of concern, along with the traditional credit, liquidity, operational and legal risks. This necessitates an initiative to harmonize and integrate the existing international standards for payment systems, central securities depositories, securities settlement systems, and central counterparties as one set of standards and to recognize that payment systems are part of a broader financial infrastructure. These initiatives culminate to the CPSS-IOSCO's or PFMI which was issued in April 2012. It is used as a new benchmark in the Financial Stability Assessment program (FSAP) and all countries are encouraged to adopt them as soon as possible.

The management of payment and settlement systems represents one of the major pillars supporting efficient functioning of the financial system and transmission of monetary policy. Given the highly technical nature of payment and settlement systems, the conduct of this Intermediate Course, serves as a starting point for central bank staff who require comprehensive knowledge of the operations of a modern payment system. But today, the syllabus for this Course has been further improved to also focus on risk-based approach in the payment, retail payment systems and settlement systems.

This **Intermediate Course** aims to enable participants to apply international standards and best practices to enhance safety of major payment and settlement systems (PSS). With this broad objective in mind, the Course uses a variety of instructional techniques to enhance learning effectiveness that includes lectures, panel discussion, sharing of country experience, case study and group work session.

Judging from the overwhelming response received to our invitation for nomination, I believe that the theme of this Course addresses the urgent needs and interest of our member and invitee central banks. As it is, the Course is participated by 33 well-qualified and suitable participants representing 14 institutions.

With a faculty of highly qualified and well experienced resource persons from the Bank of Japan, European Central Bank, Bank of Thailand, Reserve Bank of India, The Bank of Korea, Bangko Sentral ng Pilipinas and Bank Negara Malaysia. I am confident that the next five days will be a highly engaging time of learning and sharing of experience.

Ladies and Gentlemen,

Allow me to say a few words about The SEACEN Research and Training Centre. Our new vision is ***“To be the Regional Learning Hub for Central Banks in the Asia-Pacific Region”***. As a Learning Hub, SEACEN aspires to drive central bank excellence in learning for the region, by being a platform for collaboration for members to synergise efforts in central bank learning among themselves, and across SEACEN’s network base. The vision would be achieved through SEACEN’s mission in building capacity in central banking and fostering networking and collaboration. With strong commitments from our stakeholders as seen in this Workshop, we are confident that our vision will become a reality.

Coming back to this learning event, I am confident that participants will find it both fruitful and rewarding. Above all, the interaction among participants and with resource persons will provide an opportunity to learn from one another and strengthen the bond of friendship and cooperation. I also hope that you will be able to find time to enjoy the culture and beauty of Port Moresby.

Allow me to conclude by once again thanking Assistant Governor for her gracious support and resource persons for the valuable contributions and support, and to all our member and invitee banks for nominating suitable participants to the Course.

I wish you a productive and rewarding learning experience. Thank you for your attention.